

Message Text

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ACTION EA-14

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FRB-02 INR-10 NSAE-00 RSC-01 TRSE-00 XMB-07 OPIC-12

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USIA-15 IO-14 AGR-20 DRC-01 /221 W

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FM AMEMBASSY CANBERRA

TO SECSTATE WASHDC 3028

INFO AMCONSUL BRISBANE

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E.O. 11652: N/A

TAGS: EGEN, AS

SUBJ: ECONOMIC ISSUES IN AUSTRALIAN ELECTION CAMPAIGN -
PRELIMINARY VIEW

REF: CANBERRA 2177

1. BEGIN SUMMARY. AT THIS STAGE, PRIOR TO OFFICIAL
CAMPAIGN OPENING, THE RELATIVE WEIGHT OF VARIOUS
ECONOMIC ISSUES IN THE CAMPAIGN IS REASONABLY CLEAR.
BUT THE RELATIVE POSITIONS OF THE GOVERNMENT AND
OPPOSITON ON THESE ISSUES ARE STILL DIFFICULT TO
ASSESS, PRIMARILY BECAUSE THE OPPOSITION PARTIES'
DEFINITIVE POSITIONS ON MANY ISSUES YET TO BE
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ANNOUNCED. IT IS CLEAR THAT THE ECONOMIC SIDE OF

THE CAMPAIGN WILL BE DOMINATED BY THE DOMESTIC INFLATION ISSUE TOGETHER WITH THE DOMESTIC POLICY MEASURES WHICH HAVE A CENTRAL ROLE IN THE INFLATIONARY PROBLEM. THESE INCLUDE PRICE AND WAGE POLICY, TAXES, PUBLIC EXPENDITURE LEVEL AND PATTERNS, INTEREST RATE POLICY, EXCHANGE RATE AND IMPORT PROTECTION POLICIES. IMPORTANT, BUT SOMEWHAT LESS PROMINENT, WILL BE SEVERAL ISSUES OF SPECIAL IMPORTANCE FROM A U.S. STANDPOINT INCLUDING POLICY ON FOREIGN INVESTMENT AND MINERALS DEVELOPMENT

PLUS SUCH AREAS AS THE ROLE OF THE PUBLIC SECTOR, SUBSIDIES FOR MINERAL AND AGRICULTURAL ACTIVITIES, IMMIGRATION, ECOLOGY AND VARIOUS PROPOSALS FOR DOMESTIC ECONOMIC REFORM LEGISLATION.

THE CURRENT PERIOD OF QTE BATTING PRACTICE END QTE FINDS THE LIBERAL AND COUNTRY PARTIES STILL HUDDLING ON BASIC ECONOMIC STRATEGY. SOME OF THEIR EARLY PRONOUNCEMENTS PROBABLY SHOULD NOT BE TAKEN TOO SERIOUSLY PENDING CONCLUSION OF THEIR CURRENT STRATEGY SESSIONS. BUT THERE IS ALREADY A REASONABLE BASIS FOR JUDGING HOW THE GOVERNMENT AND THE OPPOSITION SIDES MAY LINE UP ON A FEW BROAD POLICY SECTORS. THE OPPOSITION WILL CERTAINLY OPPOSE FURTHER EXPANSION IN THE PUBLIC SECTOR AS EXEMPLIFIED BY THE PROPOSED PETROLEUM AND MINERALS AUTHORITY, AND EXPANSION OF THE AIDC. WHILE OPPOSING THE PUBLIC SECTOR APPROACH TO INDUSTRIAL AND MINERAL DEVELOPMENT THE OPPOSITION WILL BE MORE FAVORABLE TO RAPID PRIVATE DEVELOPMENT OF EXISTING MINERALS RESOURCES AND TO LIBERAL RAW MATERIAL EXPORTS THAN THE GOA. IN THE TRADE FIELD THE OPPOSITION WILL ALMOST CERTAINLY FAVOR A SLOWDOWN AND POSSIBLY SOME RETREAT FROM THE HIGHLY PRO-IMPORT POLICIES OF THE GOVERNMENT, AND IS COMMITTED TO PURSUING A FLEXIBLE EXCHANGE RATE POLICY AND UNTYING THE AUSTRALIAN DOLLAR FROM THE U.S. DOLLAR. WHILE THE OPPOSITION IS LIKELY TO TAKE A GENERALLY MORE SYMPATHETIC ATTITUDE LIMITED OFFICIAL USE

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TOWARD VIROROUS PRIVATE DEVELOPMENT OF INDUSTRY AND RESOURCES, THERE IS NO REASON TO ASSUME THAT IT WOULD DRASTICALLY MODIFY THE PRESENT TREND TOWARD CLOSER SURVEILLANCE AND MORE SELECTIVE POLICIES RESPECTING FOREIGN CONTROL OF SUCH DEVELOPMENT. IN THE CRUCIAL AREA OF DOMESTIC FINANCIAL POLICY, THE PICTURE IS MORE CONFUSED. THERE IS NO EVIDENCE THAT THE OPPOSITION WILL PROJECT MORE THAN A JAWBONE

APPROCH TO THE THORNY QUESTION OF PRICE AND WAGE CONTROL WHILE ITS PRELIMINARY STATEMENTS PROMISING ABOLITION OF CONTROLS ON LONG TERM CAPITAL INFLOW, REDUCED INTEREST RATES, REDUCED TAXES AND REDUCED PUBLIC SPENDING APPEAR TO HAVE BEEN LESS THAN FULLY CONSIDERED. END SUMMARY

2. PENDING EMERGENCE DURING THE COMING WEEK OF MORE DEFINITIVE POSITION STATEMENTS BY ALL PARTIES, IT IS NOT USEFUL TO CATALOG CURRENT POSITIONS ON DETAILED POLICY ISSUES. BUT THE FOLLOWING OBSERVATIONS CAN BE MADE RESPECTING ISSUES OF PARTICULAR U.S. INTEREST.

3. IMPORTS - THE OPPOSITION HAS REPEATEDLY CRITICIZED THE 25 PERCENT ACROSS-THE-BOARD UNILATERAL TARIFF REDUCTION ADOPTED BY THE GOVERNMENT IN 1973. WHILE THE CONDEMNATION WAS ON PROCEDURAL GROUNDS, THE TONE OF OPPOSITION COMMENT HAS ALSO SUGGESTED THAT THE LEVEL OF REDUCTION WAS EXCESSIVE. BUT LIBERAL OPPOSITION TO IMPORT LIBERALIZATION MUST BE TEMPERED IN A DEGREE TO THE AGRARIAN VIEW THAT AGRICULTURE IS ENTITLED TO SUBSIDIES AS COMPENSATION FOR INDUSTRIAL PROTECTION WHICH INCREASES FARM COSTS. ON BALANCE, THE OPPOSITION WOULD BE LESS DISPOSED TOWARD SIGNIFICANT IMPORT LIBERALIZATION THAN THE GOVERNMENT, BUT BOTH GOVERNMENT AND OPPOSITION WOULD PROBABLY MOVE RAPIDLY TO INCREASE PROTECTION WHEN AND IF LIBERALIZATION APPEARED TO BE CREATING SIGNIFICANT DE FACTO INDUSTRIAL UNEMPLOYMENT.

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4. EXCHANGE RATES - THE OPPOSITION IS COMMITTED TO DISSOLVING THE TIE BETWEEN THE U.S. AND THE AUSTRALIAN DOLLARS, (SEE REFTEL).

5. FOREIGN INVESTMENT - LAST WEEK LIBERAL LEADER SNEDDEN PUBLICLY PLEDGED IMMEDIATE REMOVAL OF THE 33 1/3 PERCENT VARIABLE RATE OF DEPOSIT (VRD) ON INCOMING LONG TERM FOREIGN LOANS. BUT HE HAS SINCE DILUTED BY REINTERPRETATION A NUMBER OF OTHER COMMITMENTS MADE IN THE FIRST FLUSH OF THE DOUBLE DISSOLUTION. GIVEN THE IMPORTANCE OF THE VRD CONTROLS ON INCOMING CAPITAL FOR DOMESTIC ECONOMIC MANAGEMENT, IT WOULD NOT BE SURPRISING TO SEE HIS FLAT COMMITMENT ALSO QUALIFIED AS THE CAMPAIGN PROCEEDS. WITH LIMITED OFFICIAL USE

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RESPECT TO OTHER POLICY AREAS AFFECTING FOREIGN INVESTMENT, THE GENERAL TONE AND ATMOSPHERE IN OPPOSITION CIRCLES WILL BE MORE SYMPATHETIC IN PRINCIPLE TO FOREIGN INVESTMENT. AT THE SAME TIME, ON INDIVIDUAL ADMINISTRATIVE MEASURES SUCH AS TAKE-OVER REVIEW, PRESSURE FOR INCREASED AUSTRALIAN EQUITY AND MANAGEMENT AND POSSIBLY LMZQLMRCBERVATION OF ADDITIONAL SPECIFIC AREAS FOR EXCLUSIVELY AUSTRALIAN OWNERSHIP, THE DIFFERENCE BETWEEN THE OPPOSITION AND THE GOVERNMENT WOULD BE LESS MARKED. IT IS PROBABLE THAT THE MAIN DIFFERENCE WOULD LIE IN DETAILS OF HOW THE TECHNICAL CONTROLS WERE ADMINISTERED, RATHER THAN IN THE BASIC OBJECTIVES OF THE CONTROLS THEMSELVES. THE PRINCIPAL EXCEPTION TO THIS GENERALIZATION MAY RELATE TO THE MINERALS INDUSTRY. HERE THE POSITION ASSERTED BY MINISTER FOR MINERALS AND ENERGY CONNOR HAS TENDED TO BE MORE EXTREME THAN THE GENERAL ATTITUDE

OF THE WHITLAM GOVERNMENT. EXAMPLES INCLUDE THE CONNOR INSISTENCE ON EXCLUSIVE AUSTRALIAN OWNERSHIP OF NEW DEVELOPMENT IN THE ENERGY FIELD. IT IS PROBABLE THAT UNDER A LIBERAL-COUNTRY GOVERNMENT THIS EXTREME POSITION WOULD BE TEMPERED AND THAT GOALS RESPECTING OWNERSHIP WOULD BE SUBORDINATED TO THE OBJECTIVE OF OBTAINING DE FACTO INCREASES IN EXPLORATION, RESERVES AND PRODUCTION. EVEN SO IT IS PROBABLE THAT A LIBERAL-COUNTRY GOVERNMENT WOULD CONTINUE TO SEEK FUTURE AUSTRALIAN CONTROL AND MAJORITY OWNERSHIP IN THESE INDUSTRIES.

6. ONE RATHER IMPORTANT CHANGE MIGHT BE EXPECTED IN THE MINERALS AREA. A LIBERAL-COUNTRY GOVERNMENT WOULD NOT ONLY RELY ON THE PRIVATE SECTOR FOR THE DEVELOPMENT OF THIS INDUSTRY, ACCEPTING THE IMPLICATIONS OF SUCH RELIANCE FOR INVESTMENT AND OWNERSHIP POLICIES, BUT WOULD ALSO BE MORE DISPOSED TO ALLOW UNIMPEDED DEVELOPMENT OF THESE RESOURCES IN RESPONSE TO WORLD MARKET FORCES THAN HAS THE CURRENT GOVERNMENT. SUCH A GOVERNMENT MIGHT ALSO BE LESS INTERESTED IN INTERGOVERNMENTAL ARRANGEMENTS AMONG RAW MATERIAL PRODUCERS THAN THE CURRENT GOA. LIMITED OFFICIAL USE

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FINALLY, THE LIBERAL PARTY IS ON RECORD IN DEFENSE OF FAVORABLE TAX ARRANGEMENTS FOR THE MINING INDUSTRIES WHICH HAVE RECENTLY COME UNDER FIRE FROM THE WHITLAM GOVERNMENT. GIVEN THE TENDENCY OF ITS COUNTRY PARTY ALLY TO LOOK WITH FAVOR ON SUBSIDIES FOR THE AGRICULTURAL SECTOR, A COALITION GOVERNMENT WOULD PROBABLY LEAVE IN PLACE MANY OF THE SPECIAL FINANCIAL ARRANGEMENTS WHICH THE WHITLAM GOVERNMENT SEEKS TO ELIMINATE.

7. ON THE CENTRAL ISSUE OF PRICE AND WAGE CONTROL THE LIBERAL-COUNTRY COALITION VIGOROUSLY OPOOSED THE WHITLAM GOVERNMENT'S LESS THAN VIRUROUS ATTEMPT IN 1973 TO OBTAIN PRICE AND WAGE CONTROL POWERS FOR THE CENTRAL GOVERNMENT. TO DATE, DESPITE THE FACT THAT THE VOID IN THIS AREA RIVALS TAXATION AND BUDGET POLICY AS THE MAJOR TECHNICAL GAP IN THE WHITLAM GOVERNMENT ANTI-INFLATION PROGRAM, THE COALITION PARTNERS SHOW NO APPETITE FOR FORCEFUL INITIATIVE. THE ABSENCE OF A FIRM OPPOSITIONPOSITION ON PRICE AND WAGE POLICY, TOGETHER WITH THE VAGUENESS OF ITS PROMISES TO REDUCE PUBLIC EXPENDITURE AND THE INCONSISTENCIES IN ITS ANTI-INFLATION PROGRAM OF SIMULATNEOUSLY REDUCING INTEREST RATES, TAXES AND CAPITAL INFLOW CONTROLS CONSTITUTE THE MOST VULNERABLE PORTION OF THE OPPOSITION'S PRE-CAMPAIGN

ECONOMIC POSITION. THE EMBASSY WILL BE REPORTING
DURING THE BALANCE OF THE CAMPAIGN PERIOD ON THE
EXTENT TO WHICH THESE POSITIONS MAY BE MODIFIED AS
A RESULT OF CAMPAIGN EXCHANGES AND THE POSITION
DELIBERATIONS NOW IN PROGRESS.
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